FISCAL 2000 FINANCIAL STATEMENTS

CARFINCO INC.

Providing Automotive Repair & Purchase Payment Plans

CARFINCO™

To Our Shareholders, Customers and Employees

Fiscal 2000 has been an exciting time in the growth of Carfinco Inc. It has been witness to an expansion in product line, office facilities, staff, dealer network, and portfolio size.

The Company has expanded its product line to include the financing of previously owned vehicle purchases. Over 2,900 repair facilities and vehicle dealerships are taking advantage of the Company's finance programs for automotive repairs and purchases. The increase of the net finance receivables of $6,120,013 (126%) from $4,861,158 as at fiscal 1999 year-end to $10,981,171 as at fiscal 2000 year-end is a direct result of the inclusion of the vehicle purchase finance program.

Carfinco successfully raised an additional $1,275,000 in subordinated debt. The convertible debt of $600,000 raised in fiscal 1999 was redeemed and replaced with non-convertible debt. The Company's wholly owned subsidiary, Canadian Automotive Finance Corporation, also obtained an $18,000,000 line of credit from a Schedule B Canadian chartered bank. Using this line of credit we were able to pay out the Company's previous line of credit and reduce the cost of funds. With the combination of the sub-debt and current line of credit, the Company is positioned to reach it's target of an $18 million portfolio by the end of fiscal 2001.

Carfinco also implemented a new software system designed specifically for the business sector in which the Company operates. The new system has significantly increased efficiencies in all areas of the Company from front-end credit analysis to back end account monitoring and collections. The addition of this system has allowed management to effectively monitor and control the growth of the Company.

During fiscal 2000, management of the Company adopted an aggressive write-off policy, whereby all accounts 90 days plus past due are written-off, unless otherwise directed by the collection staff. This policy has been put into effect to ensure timely write-off of accounts which are not collectable. Accounts collected after 90 days are recorded as recovery on written-off accounts and are netted against the gross write-off for the month in which they are collected.

In accordance with this policy, management is growing the reserve for future credit losses. As stated in note 4 of the Consolidated Financial Statements, the allowance for future credit losses at the end of fiscal 1999 was $145,000. Management increased the allowance by $755,000 to $900,000 at the end of fiscal 2000. The Company reported a net loss of $591,187 for fiscal 2000. Excluding the $755,000 non-cash entry applied to the allowance for future credit losses, the earnings were $163,813.

Management feels it is prudent to implement aggressive write-off and allowance policies to effectively monitor, control and budget for future losses. Thereby, reducing the risk of unforeseen write-offs and creating a strong foundation for the Company.

Management has also been focused on creating a professional and dedicated team of employees to ensure quality service for our clients, effective control of our portfolio, and timely payments from our customers. We feel we have achieved this with the current personnel of the Company, and I would like to acknowledge the people who dedicate their time and effort to making Carfinco a success. THANK YOU TO ALL.

To Our Shareholders, Customers and Employees

Fiscal 2000 has been an exciting time in the growth of [illegible] Inc. [illegible]

The Company has expanded its product line to include the financing of [illegible] vehicle purchases. [illegible] the Company's [illegible] for automotive repairs [illegible] net finance receivables of [illegible] as of fiscal 1999 year-end to $10,981,121 as of fiscal 2000 year-end [illegible] finance program.

Carthco successfully raised an additional [illegible] line of credit [illegible] The Company's wholly owned subsidiary, [illegible] also obtained an [illegible] line of credit [illegible] With the combination of the [illegible] the Company is positioned to reach its target of [illegible] by the end of fiscal 2001.

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During fiscal 2000, management of the Company adopted an aggressive account write-off policy [illegible] Accounts collected after [illegible] are applied against the gross amount of the [illegible] in which they are collected.

In accordance with this policy, management [illegible] As stated in note 4 of the Consolidated Financial Statements, the allowance for doubtful accounts [illegible] at the end of fiscal 2000. The Company reported [illegible] for fiscal 2000. Excluding the [illegible] credit losses, the earnings were [illegible]

Management feels it is essential to [illegible] the Company.

Management has also been focused on [illegible] employees to [illegible] payments from our customers. We have [illegible] Company, and I would like to [illegible] making Carthco a success. THANK YOU TO ALL!

CARFINCO™
Carfinco Inc.

Carfinco Inc. submitted an application to the Canadian Venture Exchange ("CDNX") and was accepted to list its common shares on CDNX (Tier 3). Carfinco Inc. commenced trading on CDNX on Tuesday, October 10, 2000 under the trading symbol YCR. Previously, Carfinco Inc. traded its common shares on the Canadian Dealing Network ("CDN"). Management is now in the process of preparing an application to list on Tier 2 of the CDNX.

We are extremely pleased with the milestones reached by the Company since it's start up in March 1997 and look forward to reaching the goals we have set for the future.

On behalf of Board of Directors and Management of Carfinco Inc. we thank you for your loyalty and continued support.

Tracy Graf

Mr. Tracy A. Graf
President and Chief Executive Officer

Financial Review

Fiscal 2000 Results

Carfinco Inc. reported record revenue of $2,926,065 for fiscal 2000, compared to revenue of $1,350,416 for the previous fiscal year, a 117% increase. A net loss of $591,187 was incurred for fiscal 2000, compared to net earnings of $14,535 for the previous fiscal year.

During fiscal 2000, the Company realigned the allowance for credit losses to conform with a covenant attached to the bank credit facility dated August 31, 2000, described in note 6 of the Consolidated Financial Statements. The allowance for credit losses increased $755,000 from $145,000 at the end of fiscal 1999 to $900,000 at the end of fiscal 2000, an increase of 521%.

Excluding the non-cash charge to income for the increase in allowance for credit losses, the earnings for fiscal 2000 were $163,813 and for fiscal 1999 were $68,035. The deficit at the end of fiscal 2000 of $1,158,769 includes the non-cash charge to income of $900,000 for the accumulated allowance for credit losses. Excluding this charge, the deficit at the end of fiscal 2000 is $258,769.

One of our key objectives for fiscal 2000 was to strengthen internal and monetary controls by focusing on the creation of corporate divisions within the Company. The Company has now firmly established a marketing, credit and collections division. This has allowed management to focus on and accomplish specific goals during the year.

Finance Receivable Growth

Carfinco's finance receivables (net) grew 126% during the year to $10,981,171. Funds advanced on finance receivables amounted to $12,422,730 for fiscal 2000, compared to $5,724,515 last year, an increase of 117%.

The growth in the portfolio has been attained through the continued adherence to our underwriting standards. We continue to build a strong internal infrastructure to service the contracts originated by our network of repairers and dealers.

The Company originates auto finance contracts from franchised and select independent automobile dealerships and repair facilities. Relationships with our network of repair facilities and automobile dealerships continue to be nurtured. The foundation of relationship building is strengthened by the Company's focus on courteous and reliable customer service, prompt contract funding, and consistent and timely credit decisions.

Operating Efficiency

Carfinco's ratio of operating expenses to average finance receivables decreased to 14.2% for fiscal 2000 from 23.0% the previous year. The goal for fiscal 2001 is to achieve a ratio of 11.0%.

The cost ratio is expected to decrease further as a result of increasing scale of operations, focus on technological initiatives for internal application processing and loan servicing and utilization of internet applications.

In March 2000, the Company purchased and installed a computer software system, designed for the specialty auto finance industry. The system fully integrates all accounting and operational activities of the Company. Significant efficiency gains have been achieved in the areas of credit analysis, collection management, data processing and historical analysis. The processing of pre-authorized customer payments and of direct deposit dealer funding are integrated fully into the system. The implementation of this system has allowed for effective monitoring of operational activities and for anticipated growth.

Credit Risk

The Company originates transactions in a relatively high-risk segment of the consumer finance industry, and, therefore, write-offs are anticipated. The management of the Company establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio.

The Company reviews static pool origination, historical industry ratios of write-offs, current write-off and recovery experience, estimates of the underlying collateral value, and economic conditions and trends to make the necessary judgments as to the appropriateness of the allowance for loan losses. Although the Company uses many resources to assess the adequacy of loss reserves, there is no precise method for estimating the future losses in the finance receivables portfolio.

Interest Rate Risk

The Company's earnings are affected by changes in interest rates as a result of its dependence upon a credit facility, which bears interest at a floating rate. The finance receivable portfolio bears interest at a fixed interest rate, therefore, the Company carries the risk of smaller interest rate spreads in the event market interest rates increase.

Liquidity and Capital Resources

The Company's primary sources of cash have been; cash flows from operating activities, borrowings under its credit facility and the issuance of debt and equity. The Company's primary uses of cash have been; the funding of advances on finance receivables and the purchase of certain capital assets.

The Company's wholly owned subsidiary, Canadian Automotive Finance Corporation, obtained an $18,000,000 credit facility from a Schedule B Canadian chartered bank. This credit facility replaced the existing $8,250,000 credit facility on September 13, 2000. This facility lowers the effective interest cost and provides greater financial flexibility for the Company.

The Company successfully raised an additional $1,275,000 in non-convertible debentures. The convertible debt of $600,000 raised in fiscal 1999 was redeemed and replaced with non-convertible debt. The debentures bear interest at a fixed rate and $375,000 matures in June 2002 and $1,500,000 matures in August 2005.

The Company believes that its existing capital resources along with expected cash flows from operating activities will be sufficient to fund the Company's liquidity needs for fiscal 2001.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements, the notes thereto and other financial information enclosed have been prepared by, and are the responsibility of, the Management of Carfinco Inc. These financial statements have been prepared in accordance with generally accepted accounting principles, using Management's best estimates and judgments when appropriate.

The Board of Directors is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of three Directors, meets with Management as well as the external auditors to satisfy itself that Management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the report of the auditors. The auditors have full and unrestricted access to the Audit Committee.

The financial statements have been audited by Grant Thornton, the independent auditors, in accordance with generally accepted auditing standards.

Tracy A. Graf
Chief Executive Officer

Troy S.F. Graf
Chief Financial Officer

Corporate Information

Directors

Tracy A. Graf
President and Chief Executive Officer
Carfinco Inc.
Edmonton, Alberta

David Prussky
Director
Patica Corporation
Toronto, Ontario

Gordon J. Reykdal
Private Investor
Edmonton, Alberta

Edward C. McClelland
President
Gambit Consultants Inc.
Burlington, Ontario

David Rosenkrantz
Director
Patica Corporation
Toronto, Ontario

Simon Serruya
General Manager Consumer Products
Yogen Fruz World-Wide Inc.
Toronto, Ontario

Officers

Tracy A. Graf
President and Chief Executive Officer

Troy S.F. Graf
Vice President and Chief Financial Officer

Paul M. Stein
Corporate Secretary

David Prussky
Treasurer

Bankers

Canadian Imperial Bank of Commerce
Omnicentre One
9636 – 51st Avenue
Edmonton, Alberta T6H 2W1

Auditors

Grant Thornton, Chartered Accountants
Scotia Place 1, Suite 2400
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

Solicitors

Cassels Brock & Blackwell
Scotia Plaza, Suite 2100
40 King Street West
Toronto, Ontario M5H 3C2

Transfer Agent

Equity Transfer Services Inc.
Richmond Adelaide Centre
Suite 420, 120 Adelaide Street West
Toronto, Ontario M5H 4C3

Stock Exchange Listing

The Canadian Venture Exchange
Trading Symbol: YCR

Head Office

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Grant Thornton LLP
Chartered Accountants
Canadian Member Firm of
Grant Thornton International

Grant Thornton

Carfinco Inc.
Consolidated
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August 31, 2000

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Grant Thornton LLP
Chartered Accountants
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Auditors' Report

To the Shareholders of
Carfinco Inc.

We have audited the consolidated balance sheets of Carfinco Inc. as at August 31, 2000 and 1999 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2000 and 1999 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Edmonton, Canada
October 5, 2000

Chartered Accountants

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Carfinco Inc.
Consolidated Statements of Loss and Deficit

Years Ended August 31	2000	1999
Revenues		
Interest income	$ 2,017,960	$ 990,197
Administration fees	908,105	360,219
	2,926,065	1,350,416
Expenses		
Interest	893,185	244,373
Provision for credit losses	1,445,264	180,262
Advertising and marketing	12,662	44,469
Amortization	34,090	12,994
General and administrative	659,661	485,331
Salaries and benefits	472,390	368,452
	3,517,252	1,335,881
Net (loss) earnings	$ (591,187)	$ 14,535

Deficit, beginning of year	$ (567,582)	$ (582,117)
Net (loss) earnings	(591,187)	14,535
Deficit, end of year	$ (1,158,769)	$ (567,582)
(Loss) earnings per share (Note 13)	$ (0.048)	$ 0.001

See accompanying notes to the consolidated financial statements.

Carfinco Inc.
Consolidated Balance Sheets
August 31

	2000	1999
Assets		
Finance receivables – net (Note 3)	$ 10,981,171	$ 4,861,158
Other assets	30,410	173,666
Capital assets (Note 5)	214,903	47,275
Deferred costs	149,721	67,341
	$ 11,376,205	$ 5,149,440

	2000	1999
Liabilities		
Bank indebtedness (Note 6)	$ 7,823,625	$ 2,653,032
Payables and accruals	344,575	85,823
Long-term debt (Note 7)	1,988,607	600,000
	10,156,807	3,338,855
Shareholders' Equity		
Share capital (Note 8)	2,378,167	2,378,167
Deficit	(1,158,769)	(567,582)
	1,219,398	1,810,585
	$ 11,376,205	$ 5,149,440

Commitments (Note 11)
Uncertainty (Note 14)

On behalf of the Board

_______________ Director

_______________ Director

See accompanying notes to the consolidated financial statements.

Carfinco Inc.
Consolidated Statements of Cash Flows

Years Ended August 31	2000	1999
Increase (decrease) in cash and cash equivalents		
Operating		
Net (loss) earnings	$ (591,187)	$ 14,535
Adjustments to reconcile net loss (earnings) to net cash from operations:		
Provision for credit losses	1,445,264	180,262
Amortization	34,090	12,994
Accrued interest	(106,987)	(36,524)
Administration fees receivable	(521,304)	(139,252)
Deferred costs	(82,380)	(67,341)
Payables and accruals	258,752	6,655
Other assets	143,256	(135,271)
	579,504	(163,942)
Investing		
Funds advanced on finance receivables	(12,422,730)	(5,724,515)
Principal collections on finance receivables	5,485,744	3,703,894
Proceeds from sale of finance receivables	-	118,710
Purchase of capital assets	(201,718)	(20,336)
	(7,138,704)	(1,922,247)
Financing		
Issuance of long term debt	3,000,297	600,000
Repayment of long term debt	(1,611,690)	-
Issuance of share capital	-	270,353
Share issue costs	-	(25,442)
	1,388,607	844,911
Net decrease in cash and cash equivalents	(5,170,593)	(1,241,278)
Cash and cash equivalents		
Beginning of year	(2,653,032)	(1,411,754)
End of year	$ (7,823,625)	$ (2,653,032)

Supplemental cash flow information		
Interest paid	$ 671,133	$ 212,686

See accompanying notes to the consolidated financial statements.

Carfinco Inc.
Notes to the Consolidated Financial Statements
August 31, 2000

1. Operations

Carfinco Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario). on December 30, 1996. The Company owns 100% of Canadian Automotive Finance Corporation (formerly Canadian Automotive Repair Finance Corporation), which is a company incorporated under the Business Corporations Act (Alberta).

On May 7, 1997, the Company completed an Initial Public Offering and its shares were listed on the Canadian Dealing Network (symbol "CAAR"). Effective September 29, 2000, the Canadian Dealing Network was transferred by the Toronto Stock Exchange to the Canadian Venture Exchange, a new Canadian junior capital market created upon the merger of the Alberta and Vancouver Stock Exchanges. On October 10, 2000, the Company commenced trading on the Canadian Venture Exchange (symbol "YCR").

The Company is in the business of providing consumer financing for automotive repairs and vehicle purchases.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

Basis of consolidation

These financial statements include the accounts of the Company and its wholly owned subsidiary, Canadian Automotive Finance Corporation (formerly Canadian Automotive Repair Finance Corporation).

Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts. Bank borrowings are considered to be financing activities.

2. Summary of significant accounting policies (cont'd)

Finance receivables

Finance receivables are recorded at their principal amounts, including accrued interest, less allowance for credit losses.

Revenue recognition

Interest income is recorded on an accrual basis. The Company classifies a loan as impaired when in management's view, a loss is likely to occur. Recognition of interest income is suspended on all impaired loans. Fees related to the origination of loans are recognized when the finance receivable is recorded. Charges related to the subsequent administration of the finance receivables are recognized upon collection of funds.

Allowance for credit losses

The management of the Company establishes and maintains an allowance for credit losses which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The allowance for credit losses consists of specific and general components, which are deducted from the finance receivable portfolio. The specific component includes those accounts, which, in management's view, are not considered recoverable. The general component includes a provision for credit losses, which is conservative in nature and includes an estimation of losses by reference to historical industry ratios of write-offs and to current recovery experience.

Capital assets

Capital assets are recorded at cost. Capital assets are amortized over their estimated useful lives, using the following rates and methods:

Computer and office equipment	30%, declining balance
Computer software	Straight line over a five year period
Furniture and fixtures	20%, declining balance
Leasehold improvements	Straight-line over the term of the related lease

Amortization is recorded at one-half of the above rates in the year of acquisition on all capital assets except computer software and leasehold improvements.

Income taxes

The Company has adopted Accounting Standard 3465 – Future Income Taxes. No future income tax assets or liabilities have been recognized as a result of the standard.

2. Summary of significant accounting policies (cont'd)

Deferred costs

The costs of obtaining long-term financing are deferred and amortized to interest on long-term debt on a straight-line basis over the terms of the debt.

3. Finance receivables

	2000	1999
Principal of finance receivables	$ 11,681,171	$ 4,913,145
Accrued interest	200,000	93,013
Finance receivables	11,881,171	5,006,158
Less: allowance for credit losses (Note 4)	(900,000)	(145,000)
Finance receivables – net	$ 10,981,171	$ 4,861,158

4. Allowance for credit losses

	2000	1999
Allowance, beginning of year	$ 145,000	$ 91,500
Provision for credit losses	1,445,264	180,262
Write-offs	(802,620)	(149,377)
Recoveries	112,356	22,615
Allowance, end of year	$ 900,000	$ 145,000

5. Capital assets

			2000	1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer and office equipment	$ 110,503	$ 36,263	$ 74,240	$ 28,824
Computer software	116,024	9,606	106,418	-
Furniture and fixtures	42,276	11,656	30,620	13,423
Leasehold improvements	5,262	1,637	3,625	5,028
	$ 274,065	$ 59,162	$ 214,903	$ 47,275

6. Bank indebtedness

	2000	1999
Non-bank credit facility	$ (7,800,000)	$ (2,650,000)
Bank indebtedness	(23,625)	(3,032)
	$ (7,823,625)	$ (2,653,032)

Non-bank credit facility

The non-bank credit facility is a demand loan which is the lesser at any time of: a) $8,250,000 and b) the total of an advance rate applied to the value of acceptable outstanding finance receivables. The credit facility bears interest at prime plus 3.5% on borrowings between $1,000,000 and $3,000,000 and at prime plus 3.0% on borrowings between $3,000,000 and $8,250,000.

The non-bank holds a general security agreement covering all property held by the Company and personal guarantees in the amount of $1,000,000.

The terms of the credit facility provide for certain covenants. The Company was in breach of a covenant requiring the Company to maintain certain minimum net earning levels, on a quarterly basis. This covenant was in breach as a result of the Company realigning the allowance for credit losses to conform with a covenant attached to the bank credit facility dated August 31, 2000.

Bank credit facility

The Company entered into a credit facility agreement dated August 31, 2000 with a Schedule B Canadian chartered bank subsequent to the year end. This credit facility replaced the non-bank facility on September 13, 2000.

All costs associated with the cancellation of the non-bank credit facility and the implementation of the bank credit facility are reflected on these financial statements.

The bank credit facility is a demand loan which is the lesser at any time of: a) $18,000,000 and b) the total of an advance rate applied to the value of acceptable outstanding finance receivables. The credit facility bears interest at prime plus 1.5%.

The bank holds a general security agreement covering all property held by the Company and personal guarantees in the amount of $1,000,000.

7. Long-term debt

	2000	1999
Convertible debentures	$ -	$ 600,000
16% debentures, maturing on June 19, 2002	375,000	-
16% debenture, maturing on August 28, 2005	1,500,000	-
Bank term loan repayable in monthly payments of $1,845, bearing interest at prime plus 2.5%, amortized over 5 years. The collateral security lodged by the Company to support the loan is the related computer equipment and software	100,224	-
Bank term loan repayable in monthly payments of $243, bearing interest at prime plus 2.5%, amortized over 5 years. The collateral security lodged by the Company to support the loan is the related furniture and office equipment	13,383	-
	$ 1,988,607	$ 600,000

Principal repayments in each of the next five years are due as follows:

2001	$ 25,056
2002	400,056
2003	25,056
2004	25,056
2005	1,513,383

Debentures

On June 19, 2000, the Company issued non-convertible debentures pursuant to a trust indenture for proceeds of $1,375,000. The debentures are unsecured, mature on June 19, 2002 and bear interest at 16% per annum. The interest payments are payable monthly in arrears. The debenture may be redeemed in whole or part by the Company during the term of the debentures, at the option of the Company.

On August 28, 2000, the Company redeemed a non-convertible debenture in the amount of $1,000,000.

Debenture

On August 28, 2000, the Company issued a non-convertible debenture for proceeds of $1,500,000. The debenture is unsecured, matures on August 28, 2005 and bears interest at 16% per annum.

The interest payments are payable monthly in arrears. The debenture may be redeemed in whole or part by the Company after a term of 2 years, at the option of the Company.

8. Share capital

Authorized:
Unlimited number of Class A common shares

Issued:	# of shares	2000	# of shares	1999
Balance, beginning of year	12,288,750	$ 2,378,167	9,831,000	$ 2,133,256
Issued for cash in rights offering	-	-	2,457,750	270,353
	12,288,750	2,378,167	12,288,750	2,403,609
Share issue costs	-	-	-	(25,442)
Balance, end of year	12,288,750	$ 2,378,167	12,288,750	$ 2,378,167

Warrants

On January 14, 1999, in connection with the non-bank credit facility, as disclosed in Note 6, the Company issued 1,500,000 warrants to signatories (two of the directors of Carfinco Inc.) of limited recourse personal guarantees of $1,000,000. The warrants are exercisable into 1 common share per warrant at a price of $0.18, with an expiry date of January 14, 2004.

On August 31, 2000, in connection with the bank credit facility, as disclosed in Note 6, the Company issued 150,000 warrants to a signatory (a director of Carfinco Inc.) of a limited resource personal guarantee of $500,000. The warrants are exercisable into 1 common share per warrant at a price of $0.15 with an expiry date of August 31, 2005.

Escrowed shares

Pursuant to a voluntary Escrow Agreement dated April 16, 1997, an aggregate of 709,886 common shares of the Company have been escrowed for three years. Under the terms of the April 16, 1997 Escrow Agreement, 10% of the escrowed shares were released on January 17, 1998 and 30% of the escrowed shares shall be released on each of the first, second and third anniversaries of the initial release. As at August 31, 2000, 212,967 common shares remain in escrow under the voluntary Escrow Agreement of April 16, 1997.

8. Share capital (cont'd)

Stock options

The Company has entered into incentive stock options with directors, officers and employees, the details of which are as follows:

	2000	1999
Balance, beginning of year	960,000	1,045,000
Granted	410,000	185,000
Expired	-	(270,000)
Cancelled	(410,000)	-
Balance, end of year	960,000	960,000

These options were granted at prices between $0.15 and $0.35, and expire between April 7, 2002 and July 27, 2005.

9. Related party transactions

The Company entered into a Consulting Agreement dated April 7, 1997 with Patica Corporation, whereby Patica will provide on-going financial consulting advice for a three year period, commencing May 1, 1997, for an initial fee of $1,070 per month increasing to $5,350 per month when the Company completes additional equity financing of at least $1,000,000. The fee represents fair value for services provided. During the year, payments of $16,050 (1999 - $nil) were made to Patica and at August 31, 2000, there was $5,350 (1999 - $nil) payable to Patica. Patica Corporation is controlled by individuals who are directors and/or shareholders of Carfinco Inc.

The convertible debenture was held by an individual who is a director of the Company.

10. Income taxes

To August 31, 2000, the company incurred tax losses of $926,587 which may be applied against future taxable income within the allowable provisions prescribed by the Income Tax Act.

If not utilized these losses will expire as follows:

2004	$ 255,447
2005	86,949
2006	35,187
2007	549,004
	$ 926,587

The possible tax benefit of these losses has not been reflected in these consolidated financial statements.

11. Commitments

The Company is committed to a long term operating lease for building space. The minimum annual lease payments required are as follows:

2001	$ 78,000
2002	78,000
2003	78,000
2004	78,000
2005	32,500

12. Financial instruments

The Company's financial instruments include finance receivables, bank indebtedness, payables and accruals and long-term debt. The nature of these instruments and the Company's operations expose the Company to interest rate risk and industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

a) Interest rate risk

Bank indebtedness bears interest at a floating rate. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

12. Financial instruments (cont'd)

Finance receivables bear interest at a fixed rate. The fixed rate finance receivable is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates.

b) Fair market value

The carrying values of the aforementioned financial instruments approximate their fair value.

c) Credit risk

The Company's finance receivables are a result of transactions within the consumer finance industry, and as such, contain an element of credit risk in the event that the counter parties are unable to meet the terms of the agreements. The Company minimizes its risks by taking security in the form of a security interest/lien against tangible assets. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Company maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

13. Loss per share

The loss per share figure has been calculated using the weighted average number of common shares outstanding during the respective fiscal year which amounted to 12,288,750 (1999 – 10,315,816). Calculating the fully diluted loss per share produces immaterial differences or anti-dilutive results in each period.

14. Uncertainty due to the Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

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